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SUBJECT: TURKEY: GOVERNMENT PRESENTS REVISED SOCIAL
SECURITY REFORM IN PARLIAMENT

ANKARA 00000591 001.2 OF 002

¶1. (SBU) Summary: After reaching an agreement with most unions on March 25, the GOT presented a revised Social Security Reform law directly to the parliament floor on March
¶27. The revised bill raises the number of "premium days" a worker would need to work before being eligible for a pension from the current 7,000 to 7,200, down substantially from the previous draft's 9,000 days. The new accrual formula for workers now in the system will be 3% for the first 10 years of work and 2% thereafter, and 2% per year for new entrants. Most importantly, the bill maintains the retirement age at 65 for all workers, with a 20 year transition period. While passage is not guaranteed, bringing the amended bill directly to the floor indicates that the GOT will impose party discipline to finally pass this long-awaited reform. Local experts indicated that the GOT preserved the great majority of fiscal benefits by holding firm on the retirement age, and that the days worked is largely irrelevant so long as workers can't retire until age 65. Turkey has a demographic window until 2030 in which to reap substantial fiscal benefits from this reform. The social security deficit in 2007 exceeded USD 20 billion, or 4% of GDP. This year, it is expected to reach USD 28 billion and, without reform, to consume 17% of GDP in 2050. If passed, this bill is projected to keep the deficit approximately the same in lira terms for the next ten years, and then reduce it steadily over the following 20 years, a dramatic difference. End summary.

¶2. (SBU) Unions staged a successful a two-hour work slowdown on March 14 in protest of the draft Social Security Reform law, and threatened a general strike if the law was passed. In response, Labor Minister Celik negotiated with union leaders last week on revisions to the bill. After reaching an agreement with most unions on March 25 (some continue to object to the bill), the GOT presented the revised Social Security Reform law to the parliament on March 27. The bill will be debated in six parts, with the government making the amendments agreed with labor on the floor.

¶3. (SBU) The revised bill raises the number of "premium days" a worker would need to work before being eligible for a pension from the current 7,000 to 7,200. That is down considerably from the 9,000 days in the previous draft. The bill also changes the accrual/replacement rate formula. Under current law, workers accrue 3.5% of salary towards a pension each year for the first 10 years, 2% per year for the second 10 years, and 1.5% per year thereafter. The new

formula for workers now in the system is 3% for the first 10 years of work, and 2% thereafter, and 2% per year for new workers entering the labor force. The previous draft had a flat 2% accrual rate for all workers. The bill maintains the retirement age at 65 for all workers, with a 20 year transition period. The current retirement age is 60 for men and 58 for women for new entrants, with a varying rate for current employees.

¶4. (SBU) We spoke with former Social Security Administrator Tuncay Teksoz, who was pleased with the outcome. He said that the fiscal benefits to the government are essentially unaffected by the lowering of the premium days, so long as the retirement age stays at 65. He said the accrual rate would cause only a minor reduction in the fiscal benefits, since the reform is expected to provide its major benefits in 2030-40, when all workers will be at 2%. He emphasized that analysis of the fiscal benefits is being conducted using 2003 data on the labor market. From 2003 to 2008, however, the number of formal sector workers increased by nearly 30%, from 6.5 million to 8.5 million workers, as agricultural labor decreased and service and industrial employment increased. This means that the actual fiscal benefits will be greater than currently projected. Teksoz also noted that even with current Civil Service employees excluded from the revised social security system (a result of a 2007 constitutional court decision), over time, new Civil Service hires would be included, amplifying the fiscal benefits of the reform and consolidating all employees into a single, lower cost system.

¶5. (SBU) IMF Deputy Resident Representative Davide Lombardo agreed that the reduction in premium days was not material, and that retaining the retirment age was essential. He was less certain, however, about the benign fiscal effect of the change in the accrual rate formula, particularly in the

short-medium term. The IMF is awaiting a World Bank re-evaluation of fiscal projections using the new formula.

¶6. (SBU) Comment: While we cannot yet say that the GOT has finally passed a meaningful social security reform, the GOT has maneuvered very well in getting labor buy-in and getting this bill to the floor of the Parliament without giving up the great majority of fiscal benefits. By sending it directly to the floor, the GOT is signaling it intends to invoke party discipline and finally pass this long-awaited, much-needed reform. Turkey has a demographic window until 2030 in which to reap substantial fiscal benefits from social security reform. The social security deficit in 2007 exceeded USD 20 billion, or 4% of GDP. This year, it is expected to reach USD 28 billion and, without reform, to consume 17% of GDP in 2050. Using the 2003 data that Teksoz said understates the fiscal effect, this bill is projected to keep the deficit approximately the same in lira terms for the next ten years, and then reduce it steadily over the following 20 years, a dramatic difference. End comment.

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